

THE AUSTRALIAN FINANCIAL CRISIS

by

ELIZABETH P. MACCALLUM

with the aid of the Research Staff of the Foreign Policy Association

1 1 1

INTRODUCTION

AUSTRALIA, a country which has faced and survived a number of severe economic crises in the past, has been experiencing in 1930 and 1931 another period of depression far more serious in most respects than any that preceded it. A sudden fall in world prices of wool and wheat dealt a heavy blow to Australia's two most important primary industries, normally providing about three-fifths of the country's exports. The price decline affected all other primary and secondary industries severely also, sent unemployment figures soaring, caused a sudden fall in Commonwealth and State revenues, was responsible in part for mounting deficits in Commonwealth and State budgets, and made it more than ever difficult to meet interest payments on the very considerable public debt.

The distress caused in Australia by falling world prices was considerably aggravated, moreover, by a sudden cessation in overseas borrowing. From 1923 until 1929 Australia had been receiving from outside sources an average of £30,000,000 annually in the form of loans. Growing stringency in world money markets, however, coupled with a certain uneasiness in London over the drift of financial affairs in Australia, served to cut off this source of supply. The closing of the overseas loan market in 1929 caused a financial dislocation which penetrated far into private as well as public enterprise. Meanwhile, interest payments on existing internal and overseas loans still had to be met. Prolonged borrowing had resulted by this time in the accumulation of annual interest charges totalling even more than the new loans raised each year by Commonwealth and States. In the fiscal year 1928-1929, for example, Australia's total interest bill had been £55,500,000, exceeding the £36,000,000 average of overseas and internal

debt contracted annually between the years 1923-1924 and 1927-1928 inclusive. A falling exchange rate added to the difficulties of the Commonwealth and of the six States, all of which were piling up record deficits. Short-term Treasury bills and heavy overdrafts on London banks met the situation for a while but afforded only temporary relief.

These difficulties, grave enough in themselves, were aggravated by the existence of a bitter struggle among three major political groups, each insisting on a different method of dealing with the financial crisis, and each doing its best to hamper the efforts of the others to secure the adoption and enforcement of their respective programs.

There were, in the first place, the advocates of strictest economy and severe retrenchment, who asserted that since Australia was not an isolated country it could not expect to maintain its high standards of living while the standards of other countries were being lowered. Wages of Australian workers should be reduced, they said, to bring down production costs in primary and secondary industries and stimulate Australian exports. They demanded immediate reductions in salaries of public servants to relieve government budgets. They asked, also, for curtailment of those state social services which have distinguished Australia for decades and have attracted the attention of social workers the world over.¹ They believed that if these things were not done, Australia would soon be plunged into bankruptcy, if not into violent disorders.

1. The social program of the Commonwealth government has included general invalid and old-age pensions, maternity allowances, and very liberal war pensions. State programs have involved expenditure for education, public health, and charitable purposes. The total cost to Commonwealth and States has recently been nearly £40,000,000 per annum, or roughly 30 per cent of all revenue and available loan capital combined. Cf. Australia, Conference of Commonwealth and State Ministers, February 1931, *Proceedings and Decisions* (hereinafter cited as *Premiers' Conference, Proceedings*), p. 94.

The second group insisted that some expedient must be found for avoiding bankruptcy and meeting national obligations overseas and at home without reducing wages or the various pensions and social services provided by the state. They asserted that it was still as important as ever that Australia should be peopled by a vigorous and healthy race—after all its most valuable asset—and that it was therefore still the duty of the state to guarantee its workers a decent standard of living. They saw a possible escape from the country's immediate difficulties through controlled inflation of the currency. By this expedient they hoped to secure three special advantages. In the first place, they believed that moderate inflation would help to distribute the burden of the depression fairly among the various classes of the population; in the second place, that it would ease the credit situation and stimulate production, and in the third place, that it would make pension and wage cuts unnecessary. To the last of these considerations they attached utmost importance since they feared that workers might find it extremely difficult, when normal conditions returned, to get wages and pensions restored to their former levels after drastic reductions had once been established.

The third group championed the working classes even more aggressively. Its members declared that bondholders in general were better able to shoulder the burden of the depression than other classes of the community, and therefore proposed to force them to wait for their interest payments until the financial crisis was safely passed. They declared that the first charge on public funds must be the maintenance of undiminished wages and social services. Should public funds be insufficient to meet these primary obligations, it was the duty of the banks, they said, to provide the governments with the required credits. It was also the duty of the banks to encourage production and trade. When these were restored it would be a relatively simple matter to meet interest payments and redeem maturing bonds.

2. Lesser political groups include the Country Party Progressives and the Liberals.

THE PARTY CONFLICT—1930-1931

Australia since the World War has had three leading political parties,² the Nationalist party, the Country party, and the Labour party. During the conflicts of the past year it has been the Nationalists and Country party, together with a group of right-wing Labourites, who have advocated wage reduction and limitation of the social services as measures of immediate economy. It has been the center group in the Labour party, led by the Prime Minister of the Commonwealth, Mr. J. H. Scullin, which has tried to maintain wages and social services and at the same time meet public obligations to bondholders by resorting to inflation. It has been the extreme left wing of the Labour party, led by Mr. J. T. Lang, recently elected Premier of New South Wales, which has advocated and practiced default on interest payments as a means of retaining at their existing levels both social services and the wages of workers in the lower grades of the public service.

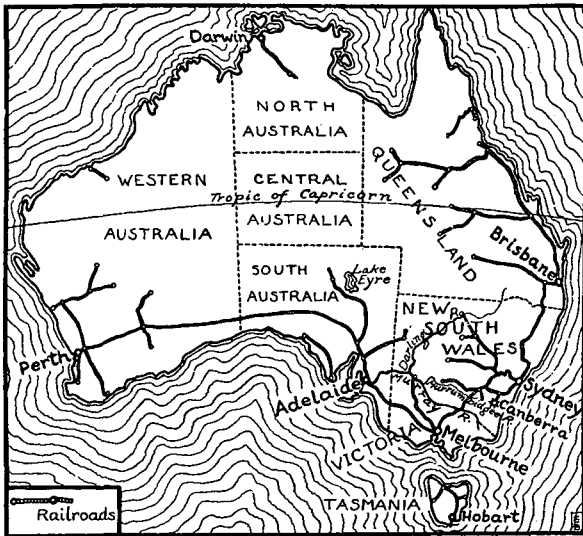
For the past year the conflict over the respective merits of drastic economy, currency inflation, and default on debt interest payments has been especially acute. In the pages which follow an attempt is made to present the most important of these issues as they appeared in 1930-1931, to record the attitude adopted toward them by the three leading groups already referred to, and to indicate the manner in which Australian leaders finally decided to deal with them after one of the most momentous internal struggles in the history of Australia.

The relative strength of the three main parties in recent Commonwealth Parliaments is indicated in Table I:

Table I
Australian Political Parties*

Party	House of Representatives			
	1923	1925	1928	1929
Nationalist	32	38	29	14
Country	14	13	13	10
Labour	29	23	31	46
Others	—	1	2	5
Senate				
Party	1925		1928†	
Nationalist	24		27	
Country	4		2	
Labour	8		7	

*Round Table, March 1929, p. 421; March 1930, p. 407-408.
†The Senate elected in 1928 has not yet been dissolved.



Australia: States and Railroads

A Nationalist-Country party coalition under Premier S. M. Bruce and Dr. Earle Page was in control of the Federal government from 1923 until 1929. Since October 1929 a Labour administration under Premier J. H. Scullin has been in office at Canberra. In the six States party fortunes have fluctuated considerably within recent years; at present, however, moderate Labourites are in control in Victoria and South Australia, Nationalists are in control in Queensland, Western Australia, and Tasmania, and left-wing Labourites are in power in New South Wales alone. This, however, is the oldest and most populous State of all.

The Nationalist Party

The Nationalist party embraces in its membership the conservative and liberal elements of towns and cities and a few right-wing socialists as well, who at one time or another have been forced out of the Labour party by the policies of the majority. United in a determination to prevent the growth of communism or radical socialism in Australia, the Nationalist party has gone some distance to meet the wishes of moderate socialists. Thus, it has upheld the system of wage regulation by Commonwealth and State arbitration courts³ and has favored motherhood endowment and national insurance, as well as housing reform. Other planks in the party platform have been vigorous develop-

ment of railroads and motor roads, adequate national defense in co-operation with British forces, a "White Australia" policy,⁴ and a high tariff, partly for revenue but chiefly for protective purposes. It has opposed political control of banking and finance. Until his defeat in the elections of 1929 Premier S. M. Bruce was the leader of the Nationalists; he was followed by Mr. J. G. Latham, a former Cabinet Minister.

The Country Party

The Country party, led by Dr. Earle Page, draws its strength mainly from the rural districts. It favors reduction of tariffs—particularly on materials indispensable to primary producers—and the encouragement of imperial economic unity and preferential trade within the Empire. It is opposed to state participation in industry, but demands better conditions for primary and secondary producers.

The Labour Party

The Australian Labour party, motivated by a strong economic nationalism, has stood for even higher protective tariffs than its Nationalist rivals. It is isolationist, unfavorable to immigration so long as immigrants might compete with Australian workers, adheres to the "White Australia" policy, and is opposed to compulsory military training. It advocates nationalization of finance and has in view the ultimate socialization of the means of production and distribution.

The chief difference between the radical Labour group led by Mr. Lang and the moderates led by Mr. Scullin is to be found in the methods they propose to adopt to attain their objectives. Mr. Lang's followers are prepared to brush aside accepted traditions which interfere with their plans. Mr. Scullin's followers have a livelier apprehension of the dangers attaching to a destructive procedure and hope to establish their policies by less revolutionary means.

By the middle of 1930 the general world depression had affected Australia to such an extent that each of the main political groups in the country had begun to show more than

3. Cf. p. 264.

4. When the last decennial census was taken in 1921, over 99 per cent of the entire population, exclusive of aborigines, was reported to be of British origin. Three-tenths of 1 per cent was of Asiatic origin. Cf. Australia, Commonwealth Bureau of Census and Statistics, *Official Year Book of the Commonwealth of Australia, 1928* (hereinafter cited as *Commonwealth Year Book*), p. 913-914

an ordinary anxiety as to the means which should be adopted to check the growing distress. Two general problems were uppermost. How could Australia's credit in overseas loan markets be most quickly restored? What were the most effective means of reviving production and trade? Public borrowing, Commonwealth and State budgets, and the organization of industry and trade were all subjected to close scrutiny and were subjects of heated controversies.

THE HISTORY OF AUSTRALIAN BORROWING

Public ownership and control, involving extensive borrowing on behalf of Commonwealth and State governments, have had a phenomenal development in Australia. The process became established in the nineteenth century, at a time when private individuals and companies were more inclined to place their capital at the disposal of colonial governments than to assume the risks of extensive enterprises themselves. The rapidity with which the population was increasing encouraged the flow of capital, and apart from certain contractions of credit which

accompanied recurrent periods of depression,⁵ the borrowing process tended almost constantly to broaden its scope.

Within recent years some of the many headings under which Commonwealth and State loan expenditures have fallen are as follows: transportation systems, including roads, railways, shipping and civil aviation; communications, including telegraphs, telephones and wireless; water supply (for irrigation schemes as well as for general purposes); immigration services; war service homes, and encouragement of closer settlement on the land. The construction of the new capital at Canberra has also been a charge on loan funds, as well as other government buildings, lighthouses, military establishments, health laboratories, and so forth.

The amounts recently spent on such projects are set forth in Table II. The same table indicates the high interest charges which Australia has had to meet, and the degree to which the latter have recently exceeded new loans. It also indicates the large proportion of total indebtedness which is due to borrowing by the States.

TABLE II
Public Borrowing in Australia

	1927-28	1928-29	1929-30
1. Loan expenditure:*			
Commonwealth	£8,699,000	£8,231,000	£5,291,000†
States	35,024,000	31,776,000	22,514,000†
Total	43,723,000	40,007,000	27,805,000†
2. Accumulated indebtedness:**			
Commonwealth	372,784,089	377,621,572	372,957,362
State	722,018,812	726,406,490	727,639,836
Total	1,094,802,901	1,104,028,062	1,100,597,198†
3. Interest charges on public debt:**			
Commonwealth	19,287,776	19,571,677	19,327,613
State	35,566,428	35,927,808	36,038,507
Total	54,854,204	55,499,485	55,366,120
4. Total increase or decrease in debt	+51,321,677	+9,225,161	-3,430,864
5. Per capita indebtedness:**	£174 4s. 3d.	£173 4s. 7d.	£170 18s. 7d.§

*Premiers' Conference, February 1931, *Proceedings*, cited, p. 81.

†Approximate.

**Australia, Commonwealth Bureau of Census and Statistics, *Quarterly Summary of Australian Statistics* (hereinafter cited as *Quarterly Summary*), p. 51.

‡Of Australia's total indebtedness approximately five-elevenths was contracted overseas, the remainder representing the internal debt. Of the overseas debt practically nine-tenths was contracted in London and one-tenth in New York. Three-quarters of the total Commonwealth debt in 1929-1930 (£282,390,532 out of £372,957,362) was classed as war debt.

§Roughly three times as heavy as that of Canada.

5. For an extended analysis of such depressions, cf. Gordon Wood, *Borrowing and Business in Australia* (London, Oxford

University Press, 1930). Cf. also E. O. G. Shann, *An Economic History of Australia* (Cambridge University Press, 1930).

It is to be observed that the sudden closing of the overseas loan market in 1929 forced the Commonwealth to cut down its loan expenditures for 1929-1930 by one-third, as indicated in the first section of the foregoing table. It is also worthy of note that in the year ending June 30, 1929 interest charges were six times as high as the total of new capital borrowed; the ratio in the preceding year was 54 to 51. Interest charges had crept steadily upward from £10,500,000 in 1912 to over £55,000,000 in 1928-1929 and 1929-1930. In 1923-1924 they exceeded new debt for the first time. This was evidence, in the opinion of many, that Australian production had now become sufficiently well established to assume an increasing share of the burden of past indebtedness.

The question has often been raised as to whether Australia's borrowing policy has been wise. The majority of Australians believe that without extensive borrowing it would have been impossible for their country to be opened up as rapidly as has actually been the case, that its present assets would have been far less valuable, and that its standards of living would have been far lower. Without extensive borrowing it might even have been impossible to maintain the "White Australia" policy and to develop that homogeneous population which is regarded as a great national advantage. Australia has kept well within its borrowing capacity, the majority of Australians assert.⁶ This view, however, is not supported by all outside financial observers.

British Economic Mission Invited to Australia

A British Economic Mission invited to Australia by Premier Bruce reported in this connection in January 1929 that Australia was still borrowing well within its actual and potential resources, although it had not always borrowed wisely and although it had pledged its future resources to too great an extent. The Australian community, this re-

port asserted, was suffering heavily from troubles arising from investment of loan funds in unproductive development schemes —i.e., schemes which had failed within a reasonable time to provide, even indirectly, their own working costs, interest on the loan capital invested in them, and sinking funds sufficient to provide for repayment of the loans when they fell due. Accordingly it had been necessary to meet out of general revenue the interest payments not provided for by the development projects themselves. Recently, the report asserted, the Commonwealth had managed to reduce slightly the drain on ordinary revenues for payment of loan interest. It deplored the fact that the States, on the contrary, had been depending more and more heavily on ordinary revenues every year to meet their interest payments.⁷ Another unhealthy symptom in the case of the States was that their total indebtedness was increasing much faster than that of the Commonwealth.

Unregulated competition on the loan market existed among Australian governments until Premier Bruce introduced two measures for its elimination. The first of these was the establishment of a Loan Council, which began to function in February 1924. Composed of representatives of the Commonwealth and State governments, this body discussed loan proposals, authorized loans of which it approved, and specified the amounts of each and the terms to be offered in their negotiation. The second measure was a financial agreement of 1927⁸ between the Commonwealth and the States, under whose terms the Commonwealth shared responsibility for all State debts after July 1, 1929, undertook to arrange all future borrowing on behalf of the States in accordance with the decisions of the Loan Council, and promised to contribute toward annual interest payments of the States.

6. Dr. Wood has indicated that the total debt not covered by assets has recently been only £43 per capita in Australia as against £153 per capita in Great Britain. He states that the relation of annual interest bills to national income has been as 8.1 to 100 in Great Britain and only as 7.1 to 100 in Australia. *Borrowing and Business in Australia*, cited, p. 226.

7. One of the outstanding examples of unproductive loan expenditure quoted in the report was in the case of the Murrumbidgee irrigation scheme, on which by June 1927 over £9,000,000 had been spent, while only one-third of the irrigable land made available thereby was being used for its intended purpose, and only a fraction of the interest attributable to that third was actually being received. Great Britain, Dominions Office, *Report of the British Economic Mission to Australia* (London, H. M. Stationery Office, 1929), p. 5-14.

8. This agreement was supported by three-quarters of Australian voters in a general referendum and was put into effect by the Financial Agreement Validation Act of 1929. Cf. *Commonwealth Year Book*, 1929, p. 380, 399.

COMMONWEALTH AND STATE DEFICITS

Although up to 1930 there had never been any question of an Australian government defaulting on interest payments, it had not always been possible for Australian governments to balance their budgets after interest payments had been made. Here again the Commonwealth was better situated than the States. Its accumulated surpluses were large enough to meet occasional deficits until 1927-1928, when the year's deficit exceeded the accumulated surplus by £2,628,743. In 1928-1929 there was an additional Commonwealth deficit of £2,358,975,⁹ and in 1929-1930 one of £1,471,000.¹⁰ In the case of the States, deficits have been of very much commoner occurrence.^{10a}

State and Commonwealth deficits have been met by bank overdrafts and the issuing of Treasury bills. State deficits have been due chiefly to the embarrassed position of the State railway systems. Rising costs of operation and maintenance, combined with almost stationary passenger and freight traffic, have played havoc with the lines. A great handicap to expanding business has been the existence of broad, standard and narrow gauges in various parts of the country.¹¹

The financial position of the railways, struggling with a heavy load of debt, is represented in Table III.

TABLE III
Australian Railways

Net Loss After Payment of Working Expenses and Interest on Loan Expenditure*

Year	States	Commonwealth	Total
1920	£1,826,945	£465,526	£2,292,471
1925	472,439	360,569	833,008
1928	4,742,212†	212,464	4,954,676
1929	4,010,476**	351,846	4,362,322
1930	7,584,003	632,421	8,216,424

*Cf. Commonwealth Bureau of Census and Statistics, *Transport and Communications* (Bulletin No. 22).

†Surplus in Western Australia only.

**Surplus in Victoria only.

ORGANIZATION OF INDUSTRY AND TRADE

A prominent Australian jurist¹² has pointed

9. Australia, Commonwealth Bureau of Census and Statistics, *Summary of Australian Financial Statistics for the Years, 1918-1919 to 1928-1929* (Finance Bulletin, No. 20), p. 17.

10. Premiers' Conference, February 1931, *Proceedings*, p. 79.

10a. State deficits in recent years have been as follows: 1925-1926, £2,153,518; 1926-1927, £216,695; 1927-1928, £219,553; 1928-1929, £1,236,307; 1929-1930, £6,641,161. Cf. *Commonwealth Year Book*, 1930, p. 271; *Quarterly Summary*, December 1930.

11. For figures cf. Australia, Commonwealth Bureau of Census and Statistics *Transport and Communication* (Bulletin No. 22), p. 7-8.

out that the absorbing interest which has dominated Australian policy both internal and external has been a consideration for the high standard of living of the average man. Wages and working conditions have been determined to a large extent in Australia by a series of awards in Commonwealth and State Courts of Conciliation and Arbitration, whose functions it is to deal with industrial disputes of all sorts. In 1907 a basic wage was first declared by Mr. Justice Higgins, President of the Commonwealth Arbitration Court, setting a minimum standard considered "reasonable" for a family of five. This so-called "Harvester judgment," stipulating a minimum wage of £2 2s. a week in the city of Melbourne, has been the foundation for all subsequent Commonwealth awards. Automatic variations of wages have occurred since then on the basis of retail price index-numbers published periodically by the Commonwealth Bureau of Census and Statistics for the various localities in which workers are employed.¹³

Court awards have stipulated the rates of additional pay to be received by workers in consideration of special skill, in case of demands on endurance, or for other reasons. The additions under these heads have been extensive.¹⁴ By June 1930, as a general result of the work of the Commonwealth and State Arbitration Courts, the average nominal wage for adult male workers in all grades of industrial employment had reached £5 0s. 3d. a week, as compared with £2 15s. 3d. a week in 1914.¹⁵ This doubling of nominal wages was accompanied by a slight rise in effective wages, as is shown in Table IV:

12. Sir William Harrison Moore, Dean of the Faculty of Law, University of Melbourne. Cf. Harrison Foundation Lectures, 1927, *Great Britain and the Dominions* (Chicago, University of Chicago Press, 1928), p. 293.

13. Standards in use in State Arbitration Courts differ little from the Harvester equivalent. Cf. *Commonwealth Year Book*, 1929, p. 542-46. In New South Wales since 1927 a plan for child endowment at the rate of 5s. a week a child has been applied, in addition to the basic wage, in the case of workers coming within certain categories. The Bruce-Page government considered and rejected a Commonwealth scheme for child endowment in 1929.

14. A Royal Commission in 1920 recommended an increase in the basic wage itself so as to secure an average of £5 15s. 8d. for the six capital cities; the recommendation was not adopted, however, owing to the fear that industry might not be able to support the additional burden.

15. *Quarterly Summary*, March 1931, p. 69, 70. Corresponding figures for adult female workers were £2 14s. 2d. and £1 7s. 2d. respectively.

TABLE IV
Wage Index-Numbers, 1911-1929*

Year	Nominal Wage Index-Number	Percentage of Unemployed	Effective Wage Index-Numbers	
			Full Work	Allowing for Unemployment
1911	1,000	4.7	1,000	1,000
1921	1,826	11.2	1,076	1,002
1927	1,946	7.0	1,102	1,075
1928	1,963	10.8	1,115	1,044
1929	1,972	11.1	1,082	1,009

*Commonwealth Year Book, 1930, p. 383.

Thus, although there had been a spectacular rise in nominal wages, the rise in effective wages of those actually employed increased by only 8.2 per cent between 1911 and 1929,¹⁶ while effective wages for industrial workers as a whole, including the unemployed, rose less than 1 per cent.

THE TARIFF

To guarantee high wages to Australian workers successive Commonwealth governments have maintained a protective tariff so as to bar from Australian markets the products of countries in which the lot of workers has been less fortunate. The Australian tariff of 1908 contained eight items with an *ad valorem* duty of 40 per cent or over. Twenty years later there were 259 items in this category, and 40 with rates of 60 per cent.¹⁷ By this extension of the tariff Australian producers in both primary and secondary industries had a domestic market guaranteed to them. The British Economic Mission¹⁸ was of the opinion, however, that tariff extensions had gone far enough by 1929; its members asserted that high duties had sheltered inefficient and undeserving groups of producers and exercised a debilitating influence on industry, promoting dependence upon government assistance rather than upon individual enterprise.¹⁹

16. Professor Douglas has shown that effective wages in all industries, including farm labor, rose from an index-number of 96 in 1911 to 127 in 1926 in the United States, where no such rigidity in wage-fixing existed as was the case in Australia. Cf. Paul Douglas, *Real Wages in the United States, 1890-1926* (New York, Houghton Mifflin, 1930), Table 147.

In the *International Labour Review* for January 1929, figures based on food consumption were published which represented standards among working classes in Melbourne as being 42 per cent higher than those in vogue among the working classes in London. The *Review* cautioned its readers, however, against too literal an interpretation of these figures. Cf. also William Keith Hancock, *Australia* (Modern World Series: London, Benn, 1930; New York, Scribner's, 1931).

17. Great Britain, Department of Overseas Trade, *Economic and Trade Conditions in Australia to August 1929*, p. 30.

18. Cf. p. 263.

19. Report of the British Economic Mission to Australia, cited, p. 18-24.

Nine months after the publication of this report the Labour government of Mr. Scullin assumed office. One of its first measures was to introduce further tariff increases on an almost unprecedented scale. In April 1930 another measure was introduced permitting 50 per cent additions to certain existing duties, while the importation of 78 articles was prohibited altogether.²⁰

Under recent Commonwealth administrations the balance of trade has fluctuated considerably, as Table V indicates. Mr. Scullin's problem is shown in the figures for 1929-1930, when the value of exports dropped suddenly by more than 30 per cent, while imports were still costing the country almost as much as ever. It was this situation which made him resort to embargoes in an attempt to restore a favorable balance of trade.

TABLE V
Commodity Imports and Exports—
1925-1930*

(In thousands of pounds sterling)			
Year	Imports	Exports	Trade Balance
1919-20	81,045	137,936	+56,891
1920-21	143,078	121,307	-21,771
1921-22	87,926	117,791	+29,865
1922-23	116,633	111,451	-5,182
1923-24	124,454	112,349	-12,105
1924-25	130,186	156,999	+26,813
1925-26	134,403	140,006	+5,603
1926-27	146,253	129,848	-16,405
1927-28	129,313	135,207	+5,894
1928-29	143,281	140,924	-2,357
1929-30	130,813	97,100	-33,713

*Figures for the first nine years are taken from Wood, *Borrowing and Business in Australia*, cited, p. 202-203; those for the last two years are from *The Times* (Annual Financial and Commercial Review), February 10, 1931. For the eleven months ended May 31, 1931 imports were valued at £56,939,000 (sterling) and exports at £82,299,000 (Australian). Cf. National Bank of Australia, Ltd., *Monthly Summary of Australian Conditions for June 1931*, p. 18.

20. For details, cf. *Commonwealth Year Book, 1930*, p. 105.

BOUNTIES

The tariff was not the only safeguard employed by Australian governments to foster the growth of Australian industries. In some cases, where special conditions existed, it was found advisable to subsidize Australian production directly by the payment of bounties as well. Thus, between the years 1923 and 1929 bounties were paid to encourage production in the case of shale oil, iron and steel, sulphur, canned fruit, and cotton, and to stimulate export of meat, wine and a few other commodities. In 1923-1924 aggregate bounties cost the taxpayers £372,824; by 1927-1928 the total had increased to £895,499, although in the following year it fell again to £534,216 and in 1929-1930 to £518,641.²¹

The cumulative effect of bounties, tariffs and high wage rates was to place Australian wholesale and retail prices on a level considerably above general prices in world markets. Under these circumstances, Australian producers were naturally much more anxious to sell in home markets than overseas. Their reluctance to assume the "burden of export" was so marked in some cases that the government was obliged to take a hand in the matter and ration export among various producers so that all would bear a fair share of the load.

It may be useful to quote an example of the way in which the system operated. Australians, anxious to maintain a white population in the sugar fields of tropical Queensland, decided that it would be worth while to place an embargo on importation of sugar and to pay heavy sugar bounties to enable Queensland producers to give their workers a "white man's wage." This was done. The government, moreover, undertook to market a substantial proportion of the output. It acquired for about £26 a ton all raw sugar to be sold in Australia. Every year considerable amounts were allowed to run to waste, since there was a heavy loss on every ton exported. Of the total amount of raw sugar actually reserved for refining in 1928-1929, 36 per cent was exported at a net price of £10 10s. per ton, or only a little more than one-third of the domestic price. One of

Australia's well known economists estimated that the Australian public was paying a bonus of about £250 (\$1,250) a year to each man in any way connected with the sugar export industry—a rate which he considered to be at least ten times too large.²²

Fortunately for Australia, world prices of wool and wheat have ordinarily been fairly high, so that it has been relatively easy to export these two commodities which Australia is specially fitted to produce. In the years immediately preceding 1929 wheat and wool together accounted for about 58 per cent of the total returns on Australian exports. When world prices of these two commodities began their recent headlong fall,^{22a} there existed no means by which producers in these two industries could pass on the burden, or even a legitimate share of it, to other elements in the Australian community. The Commonwealth Bank ultimately came to the rescue of wheat growers with the promise of an advance of 2s. 6d. a bushel on wheat delivered at country railway stations but the farm relief problem still remained acute.²³

As had always happened before in times of depression, Australians now began to realize the difficulties inherent in an inelastic organization of industry, where wage reduction, in excess of the fall in retail prices, cannot occur except by court decision, and where the quasi-monopolistic system growing out of combined tariff protection and government bounties prevents as rapid an adjustment to changing conditions as would be possible were industry more entirely dependent on individual initiative. It was also apparent that Australian production, under the existing organization of industry, was not keeping pace either with the rate of increase in the population or with the rate of increase in productivity of countries competing with the Commonwealth.

22. Professor Giblin, "Letters to John Smith," (No. 8), *The Herald* (Melbourne), July 1930. New South Wales sugar producers enjoyed the benefits of embargo and bounties as well as the Queensland producers on whose account the system was inaugurated.

22a. These prices were reduced by 50 per cent between 1929 and 1931; the price of copper fell from £83 to £43, lead from £22 to £14, tin from £180 to £118 and butter from 176s. to 107s.

23. For a more extended account, cf. *Round Table*, March 1931, p. 444. The Commonwealth government, in the Wheat Advances Act of 1930, promised an extra half-shilling a bushel, but after passing the act found that it could not raise sufficient funds to put it into effect.

21. *Ibid.*, 1928, p. 716-17; 1929, p. 720-21; 1930, p. 519. In 1930 Mr. Scullin's government introduced a generous bounty to stimulate gold production.

THE MELBOURNE AGREEMENT OF AUGUST 1930

Under these circumstances, when wool and wheat prices fell and the loan market failed in 1929 to respond to Australian requirements, Premier Scullin decided to invite Sir Otto Niemeyer of the Bank of England to investigate the situation and to state the terms on which he believed British capitalists would be willing to resume loans to Australia. Sir Otto, in a notable statement to the Premiers' Conference held at Melbourne in August 1930,²⁴ criticized chiefly the rigidity of Australia's economic system and its consequent failure to adapt itself to changing world conditions. The Australian standard of living, he said, was too high to be economically sound. Production must increase more rapidly and its costs must come down. Budgets for the current year must be balanced and provision made for meeting overseas obligations soon to mature.

Sir Otto's recommendations corresponded admirably with the views of the majority of the Opposition at Canberra, but were quite distasteful to the majority of Labour representatives, who saw in the recommendation to reduce production costs an attack on the basic wage and the right of workers to enjoy a reasonable standard of comfort. Before the Premiers' Conference broke up, however, an agreement embodying some of Sir Otto's more urgent recommendations to the governments was signed by Nationalist and Labour Ministers alike,²⁵ the representatives of the Labour government of the Commonwealth consenting to the agreement only after State representatives had brought heavy pressure to bear on them to do so.

Terms of the Agreement

The terms of the August 1930 agreement included the following:

1. It bound all seven governments of Australia to balance their budgets for the financial year 1930-1931, and to maintain similar balanced budgets in years to come.
2. The Loan Council would raise no further loans overseas until existing overseas short-term indebtedness had been completely dealt with.
3. Internal loans for financing public works would not be approved unless the works concerned

were reproductive in the sense of yielding within a reasonable period a revenue at least equal to the service of the debt, including both interest and sinking fund payments.

4. The regular service of the public debt from revenue was to be secured by a plan whereby all interest payments would be made to a special account in the Commonwealth Bank to be used for interest payments solely.

5. It was recognized that heavy sacrifices would have to be made in balancing the various budgets. The voluntary acceptance of these sacrifices was declared, however, to be the only possible way of avoiding "national disgrace and dishonour," involving immediate financial disaster, which would be followed by unemployment on an unprecedented scale with all its attendant human suffering.

State governments faced serious conflicts over the reduction of salaries and wages of civil servants, but, in spite of objections, substantial cuts were introduced in all States but New South Wales.²⁶ The lowest average rate of reduction was in Victoria (5.3 per cent); the highest (11 per cent) was in Queensland and South Australia.²⁷

The Melbourne plan was eventually wrecked, however, through the non-cooperation of New South Wales and the Commonwealth. In New South Wales elections took place in October 1930, as a result of which the Nationalist government of Premier Bavin was defeated and left-wing Labourites under Mr. J. T. Lang assumed control of the administration. While still in opposition, the New South Wales State Labour executive had denounced the August 1930 agreement, and now it repudiated it entirely and embarked on a policy of "no retrenchment." Premier Lang challenged the supreme borrowing power of the Loan Council, which refused him financial accommodation, and in effect dared that body to obstruct his generous public works and unemployment relief program.

The Commonwealth Cabinet, meanwhile, in the absence of Mr. Scullin—who had gone to London to attend the Imperial Conference—was divided between supporters and opponents of the August agreement. A similar division existed in the Federal Labour caucus, which had selected the members of the Cabinet and was in the habit of decreeing

24. For text of this statement, cf. *The Argus* (Melbourne), August 22, 1930.

25. In August 1930 New South Wales, as well as Queensland, Western Australia and Tasmania, had a Nationalist government.

26. Premier Bavin had already cut civil service salaries by 1 1/3 per cent in New South Wales.

27. Premiers' Conference, February 1931, *Proceedings*, p. 29.

the contents of every government measure before it was submitted to Parliament.²⁸ Mr. Lyons, the Acting Treasurer, hoped to balance the budget by extending taxation and reducing expenditure. His opponents in the Cabinet and the caucus, however, balked at most of the proposed economies, demanding that the Commonwealth Bank be required to provide the additional credits which their own less frugal program would necessitate. They also proposed a moratorium to avoid the necessity of meeting December interest payments on certain domestic securities. This drove Mr. Lyons to defy the caucus. For the moratorium he substituted a £28,000,000 conversion loan, which was oversubscribed to the extent of £1,700,000. Because of continued opposition, however, he failed to balance the Commonwealth budget as he had promised to do at Melbourne.

PREMIER LANG'S POLICY IN NEW SOUTH WALES

Mr. Lang, Premier of New South Wales, was not slow in beginning his campaign for the protection of wage standards of Australian workers. At a Premiers' Conference on February 9, 1931, he announced that his State would go as far as it could toward putting the following plan into effect, and invited the other States and the Commonwealth to join him in prosecuting it:

No further interest should be paid on Australian war debts to Great Britain until the latter allowed the Commonwealth at least as favorable terms as those which Great Britain itself had demanded of the United States.²⁹ Meanwhile the rate of interest on Australian internal debts should be cut to 3 per cent. The gold standard should be abandoned frankly and a currency established which would be based on the productive capacity of the country.³¹

THE APRIL 1931 DEFAULT ON INTEREST PAYMENTS

In spite of the vigorous protests of the Premiers and Treasurers of all the other

Premier Scullin's return to Australia in the beginning of January 1931 was the signal for a sudden intensification of the political conflict. To conciliate the foes of Mr. Lyons within the Cabinet, Mr. Scullin recalled the former Treasurer, Mr. Theodore.³⁰ Mr. Lyons and a few of his supporters thereupon resigned from the Labour party, while left-wing Labourites, encouraged by the victory of Premier Lang in New South Wales, grew more and more extreme in their demands. Premier Scullin thus found his majority very much diminished, the Labour party being split into three parts—*viz.*, the supporters of the former Acting Treasurer, Mr. Lyons, those who sympathized with Premier Lang of New South Wales, and Mr. Scullin's own attenuated following, which had thus become a center group.

States and of the Commonwealth, Mr. Lang defaulted on interest payments totalling £729,251 due in London on April 1. It was not actual inability to procure funds which prompted the move. Although the Loan Council had been refusing Mr. Lang financial accommodation since January in the hope of making him return to the August 1930 agreement, the approach of the date when overseas interest payments became due caused the Commonwealth government to offer to secure the necessary amount for New South Wales through the Commonwealth Bank. Mr. Lang refused the offer. He preferred to leave the funds with the bank, he said, in the hope that they might be used to provide credits for Australian producers. This was in line with his declared policy of applying available funds toward the restoration of normal conditions within Australia first, leaving the service of the overseas debt to be taken care of later.

The Commonwealth government arranged immediately to meet the overseas obligations of New South Wales, asserting that under

28. The caucus exercised strict control over Labour representatives at Canberra, but had to reckon, in turn, with other bodies, such as the Council of Trade Unions, the Australian Workers' Union, or the Australian Labour Party itself.

29. Mr. Theodore had retired a few months earlier under unhappy circumstances, owing to charges of dishonest exploitation of the Queensland government brought against him by a Royal Commission appointed to investigate the purchase of the Mungana mines by the State when Mr. Theodore was Premier of Queensland. His reappointment was bitterly attacked by church and political groups. His case did not come before a tribunal until August 1931. At time of going to press it seemed likely that the prosecutors would fail to secure a conviction.

30. Australia, Mr. Lang said in a later speech, was paying Great Britain a little more than 5 per cent, while Great Britain was paying the United States only 3½ per cent. *The Times* (London), February 24, 1931.

31. Mr. Lang explained that this Australian currency could be used for paying local producers. The whole of the revenue from the surplus overseas could be applied to the amortization of the external debt, except that portion of it which was needed to establish credit for commodities Australia could not itself produce. *Ibid.*, February 10, 1931.

the Financial Agreement Validation Act of 1929 it had the right to apply revenues derived from all six States to meet the default of one of them. On April 13 Federal law officers issued a claim against New South Wales for reimbursement of the Commonwealth and the five remaining States.³²

Premier Lang's action had a variety of results. In New South Wales secession movements gained ground both in the fertile Riverina section in the southwest and in the north, where there was talk of creating a small State to be called New England, which would claim the right to meet all obligations

arising out of its share of the New South Wales debt.

Both in New South Wales and in other parts of the country, moreover, there was an intensification of sentiment among two opposing groups on the subject of State rights. The first group was in favor of greater centralization of power in the hands of the Commonwealth government, with the States reduced to the position of provinces. The second group favored the release of the States from the bonds of federation. This would enhance their powers and free them from further compulsory association with a "repudiationist" state.

POLICY OF THE COMMONWEALTH GOVERNMENT

The Commonwealth government was weighed down with anxieties even before the action of Premier Lang damaged Australia's reputation abroad. Over a quarter of a million persons were unemployed, including 113,614 trade union members, representing 25.8 per cent of total trade union membership.³³ In addition, Mr. Scullin had been worsted in a conflict with the Commonwealth Arbitration Court over industrial wage cuts. On January 22, 1931 the Court dealt with a petition presented by the railway commissioners of three States and a great number of other employers for a reduction of the basic wage and an alteration in the method of computing it. The Court refused the petition but announced that as an emergency measure wages would be reduced by 10 per cent for at least twelve months. The Federal Attorney-General ap-

plied to the Commonwealth Arbitration Court for a postponement of this award, on the ground that it might be a fatal impediment to the plans of the government for stimulating industry. On February 5 the Court dismissed the Attorney-General's application and the wage cuts went into effect.³⁴ This did not add to Premier Scullin's popularity. Premier Lang, by contrast, had reduced working hours in the railway service from 48 a week to 44, with no alteration in wages. Feeling among workers and unemployed alike was running high. There was talk of violence. In Western Australia drilling of unemployed men was made illegal.

Australian credit in London was suffering a progressive decline, and there was an increasing contrast between quotations of Commonwealth securities and those of other British Dominions, as indicated in Table VI:

TABLE VI
Trend of Net Prices of Comparable 5% Australian, New Zealand
and South African Securities in London*

Date	Commonwealth		New Zealand		South Africa	
	£	s. d.	£	s. d.	£	s. d.
January 15, 1929	98	5 0	102	15 0	103	10 0
July 28, 1930	88	2 6	101	12 6	99	17 6
August 25, 1930	91	15 0	102	5 0	101	5 0
November 3, 1930	75	5 0	102	10 0	100	15 0
December 15, 1930	80	13 9	101	13 9	102	3 9
January 12, 1931	65	16 3	101	11 3	101	16 3
January 27, 1931	74	12 6†	99	2 6	101	7 6

*Premiers' Conference, February 1931, *Proceedings*, p. 85.

†On January 27, 1931, comparable securities of the Australian States ranged between £62 and £74.

32. *Ibid.*, April 4, 1931.

33. *Quarterly Summary*, March 1931, p. 65.

34. *The Times* (London), January 23, February 4, 5, 1931.

An unprecedentedly large deficit was expected by the close of the fiscal year on June 30, 1931. Customs receipts for the eight months ended February 28, 1931 were almost £6,500,000 less than estimated. By that date they had reached only £19,985,505 as compared with £29,646,378 in the corresponding period of the previous year.³⁵ The value of imports in 1930-1931 was less than half of what it had been in 1929-1930.

THE TRADE BALANCE AND THE EXCHANGE SITUATION

Although customs revenue was seriously reduced, the situation had two encouraging aspects. A favorable trade balance was re-established, and while the total value of exports was still below that of the previous year,³⁶ the volume of exports was increasing rapidly. Thus, between July 1, 1930 and February 7, 1931, 61 million bushels of wheat were exported; only 31 million bushels had been shipped in the corresponding period of the previous year.³⁷ Fortunately for exporters, the falling exchange rates aided them as much as they hampered importers.

For Mr. Theodore and the Commonwealth government, however, the exchange situation was extremely embarrassing, since it had increased overseas government obligations by considerable amounts.³⁸ The exchange rates had their most phenomenal fall in January 1931, as shown in Table VII:

TABLE VII
Premiums Paid in Australia for London Money*

(Rate per £100)			
Date	£	s.	d.
January 27, 1930	2	12	6
March 10, 1930	4	2	6
October 10, 1930	9	0	0
January 6, 1931	15	10	0
January 13, 1931	18	7	6
January 17, 1931	25	10	0
January 29, 1931	30	10	0

*Premiers' Conference, February 1931, *Proceedings*, p. 84.

35. U. S. Department of Commerce, *Foreign Financial News*, April 30, 1931, p. 1-2.

36. Cf. footnote to Table V, p. 265.

37. *A Picture of World Economic Conditions at the Beginning of 1931*, cited, p. 127-128.

38. The Australian banks had made an attempt to peg exchange, but in January 1931 outside competition led the Bank of New South Wales to break away from the general agreement not to raise bank exchange rates, and although other banking institutions deplored this alleged breach of faith, they were forced to follow suit.

Because of the extent of Australia's overseas obligations, the burden of low exchange rates, and the difficulty of arranging for further credit, Mr. Theodore, the Commonwealth Treasurer, had to give special consideration to the question of gold shipments and the minimum gold reserve which it would be necessary to maintain within the Commonwealth. In 1929 legislation had been enacted empowering the Commonwealth Bank to requisition gold from private individuals and from other Australian banks, as well as to control its export in co-operation with the Commonwealth Treasurer.³⁹ The effect of this measure was to enable abnormally large shipments to be made in the fiscal year 1929-1930, as indicated in Table VIII:

TABLE VIII
Australian Gold Shipments

Year	£
1925-26	4,355,332
1926-27	11,373,771
1927-28	2,809,249
1928-29	2,984,166
1929-30	26,868,539
1930-31 (ten months)	7,909,494

The heavy shipments of 1929-1930 so depleted the store of gold in the Commonwealth that Mr. Theodore apprehended some difficulty in persuading the Commonwealth Bank Board to permit further exportation. He therefore planned to introduce special legislation to force it to do so. By December 1930 the gold reserve equalled only 5 per cent of the direct liability of banks to private depositors and governments. In December 1929 it had been 10.9 per cent and in March 1921, 15.9 per cent.⁴⁰

The question of available gold supply was particularly pressing at the moment because of the rapid growth of Australia's floating debt since the closing of the loan market. It was a matter of extreme urgency to arrange for the funding of this indebtedness, since a large proportion of it was practically on call, and hung over the heads of Ministers as a constant menace. The amounts involved are represented in Table IX:

39. A. C. Gordon MacKay, *The Australian Banking and Credit System* (London, P. S. King & Son, 1931), p. 191.

40. Premiers' Conference, February 1931, *Proceedings*, p. 83. The total gold reserve in December 1930 was £15,500,000.

TABLE IX
Growth of Australian Short-Term
Indebtedness*

<i>Date</i>	<i>£</i>
June 30, 1929	5,500,000
December 31, 1929	27,600,000
June 30, 1930	38,500,000
December 31, 1930	53,000,000
February 28, 1931 (estimate)	55,512,000

*Premiers' Conference, February 1931, *Proceedings*, p. 82. Of the final figure shown above, £38,075,100 was in the form of overdrafts and Treasury bills in London; the remainder (£17,437,000) represented overdrafts and Treasury bills in Australia.

MR. THEODORE'S POLICY

Soon after Parliament reopened on March 5, 1931, the Commonwealth Treasurer introduced a series of financial measures based on the theory of moderate Labourites that what Australia needed was to have its money supply increased, so as to ease credit, stimulate production, and enable governments to meet their obligations not only to bondholders but also to workers, who had been promised certain wage rates and had a right to expect this promise to be fulfilled. The first of Mr. Theodore's measures was a bill for a fiduciary note issue, limited to £18,000,000, of which £12,000,000 was for the relief of unemployment and £6,000,000 for the relief of farmers. The Loan Council was to control this issue, so as to prevent excessive printing of fiduciary notes. At first the issue would have no backing except the productive capacity of the Australian people. When market conditions permitted, a loan would be raised to cover the issue.

A Wheat Bill provided for the distribution of the £6,000,000 maximum of farm relief foreshadowed in the Fiduciary Notes Bill. A Commonwealth Bank Act Amendment Bill, moreover, provided that the government might require the Commonwealth Bank Board to transfer to the Treasury such amounts of gold as were required to meet overseas obligations; in return, the bank would receive an equal amount of Commonwealth securities and be relieved from the duty of redeeming notes with gold upon demand. A Bank Interest Bill provided for a representative board to advise the governments on the subject of reducing bank interest rates. Finally, an Income Tax Bill provided for a considerable extension of taxes on incomes derived from government

securities, and in the taxes on salaries of civil servants.

Reactions to the Theodore Bills

Mr. Lang, campaigning in various parts of the country in the interests of left-wing Labour, assailed the Fiduciary Notes Bill on the ground that it did not constitute a bold enough attack on the gold standard, to which Australia had returned in 1925 in the wake of Great Britain. The plan was vitiated in his opinion by the fact that Mr. Theodore intended in time to raise a loan to cover the note issue. Credit, Mr. Lang continued to maintain, should be based frankly on the productive capacity of the country.

Premier Lang's power was now considerable. Although he commanded the loyalty of only five New South Wales representatives in the lower house at Canberra, this small group held the balance of power between the followers of Mr. Scullin and the combined Opposition, composed of the Nationalists, the Country party, and the followers of Mr. Lyons. Three times between March and May the Opposition introduced motions of censure in the hope of turning Mr. Scullin out of office. On each occasion he was saved from defeat only because a few members of the small radical group voted with the government to prevent a Nationalist victory. Mr. Scullin's margin of support dwindled from five votes to two.

The Nationalists and Country party regarded Mr. Theodore's measures, and especially the Fiduciary Notes Bill, with abhorrence, believing the latter to be a thoroughly unnecessary deviation from "respectable" fiscal policy for the sole purpose of dodging economies which would be unpalatable to the section of the electorate upon which the Labour government chiefly depended for support. Mr. Lyons, leader of the right-wing Labourites, asserted that it would be an easy matter to get loans again from London and to effect a reduction of overseas interest rates as soon as the Commonwealth had a government which neither advocated inflation nor was kept in office by the disdainful votes of a few "repudiationists."

Mr. Latham, leader of the Nationalist party, attacked the Fiduciary Notes Bill chiefly on the ground that it was an attempt to establish political control of banking and currency. Sound banking, he said, would never be possible once the precedent of inflation for political purposes had been established.⁴¹ He believed that the government should allow financial and commercial interests to co-operate in restoring production and buying instead of assuming that function itself. Dr. Page, leader of the Country party, advocated the raising of a gold loan of £15,000,000 in France, which could be used to back additional loans elsewhere.⁴²

Non-Labourites throughout the country did not accept the situation passively. An "All for Australia League," formed toward the end of February when alarm over Mr. Lang's threats of default became general, carried on widespread propaganda in favor of a non-partisan effort to bring in an era of economy, hard work, full payment of obligations and abolition of "machine politics."⁴³ On April 7 a United Australia party was formed, with Mr. Lyons as leader and Mr. Latham as deputy-leader, uniting all opposition groups except the Country party. The latter was prepared to co-operate with the United Australia party in overthrowing the Labour government, but insisted on a 25 per cent reduction in the tariff and free importation of agricultural machinery, which the United Australia party was not prepared to concede.

The Fiduciary Notes Bill, meanwhile, which passed on second reading by a margin of five votes in the House of Representatives on March 25, was rejected by the Senate on April 17. Premier Scullin intended to pass it again in the House of Representatives, return it to the Senate, and when the Senate rejected it a second time, after the customary three-month interval, dissolve both Senate and House of Representatives. In this manner Labour hoped to secure a Senate more amenable to Mr. Scullin's leadership, while the United Australia party was confident of victory in both Houses.

41. *The Times* (London), March 21, 25, 1931.

42. *Ibid.*, March 21, 1931.

43. *Ibid.*, March 30, 1931.

PERIOD FOR REPAYMENT OF WAR DEBTS EXTENDED

Mr. Scullin scored one success which he hoped would be to his advantage in the generally expected election. After protracted negotiations in London with Mr. J. H. Thomas, Secretary for the Dominions, his government obtained on April 15 a two-year extension of the period within which that portion of the Commonwealth war debt which was due to Great Britain would have to be repaid. This debt had amounted to £92,480,156 when it was funded in 1921. The Commonwealth at that time arranged to retire the debt in 36 years at 6 per cent interest, which would reimburse Great Britain for what it had cost it to float the successive loans. Mr. Scullin had asked Great Britain to reduce interest rates on this debt, postpone the date of its retirement, and allow funding of the interest payment due in March 1931. The only concession Great Britain now felt able to make, however, was to prolong the period of retirement of the debt by two years, thus saving Australia from the necessity of finding £3,200,000 plus exchange for capital payments within the next twenty-four months.⁴⁴

About a week after this welcome announcement was made, a run on the New South Wales State Savings Bank, following large transfers of deposits to the Commonwealth Bank, forced the former institution to close its doors on April 23 and enter into negotiations for amalgamation with the Commonwealth Bank. Premier Lang blamed the Nationalist leaders in New South Wales for the occurrence, charging that they had said during the October election that if Mr. Lang were returned to power he would undoubtedly lay "predatory hands" on the people's savings.⁴⁵ The Commonwealth Bank arranged for advances to the State Savings Bank, so as to permit limited withdrawals after May 4.⁴⁶

44. *Ibid.*, April 16, 1931.

45. *Ibid.*, April 22, 1931.

46. Negotiations for the amalgamation of the State and Commonwealth banks continued until the end of July, when they broke down owing to the refusal of Premier Lang to accept the maximum concessions agreed to by the Commonwealth Bank Board. By this time the Commonwealth Bank had advanced £1,500,000 for the relief of needy depositors in the New South Wales State Savings Bank. *Ibid.*, July 22, 24, 28, 29 and 31, 1931.

On April 17, a few days before the New South Wales State Savings Bank closed its doors, the Commonwealth Bank Board issued an announcement indicating that it would arrange no further financial accommodation for the government after present arrangements lapsed on June 30.⁴⁷ Mr. Scullin, approaching the end of his financial resources and still unable to devise acceptable means of redeeming £5,000,000 worth of Treasury bills maturing in London on June 30, found it impossible, in the light of this ultimatum, to wait for a new election before taking decisive action with respect to Australia's finances. At the April meeting of the Loan Council an economic committee was appointed to investigate thoroughly the economic position of the entire country and report in May, whereupon something definite would have to be done.

THE 1931 FINANCIAL AGREEMENT

The report of the economic committee of the Loan Council was presented on May 22. Four eminent Australian professors of economics had been drafted to aid in its preparation. The attention of the entire country was centered on its findings. The economists⁴⁸ reported that the accumulated deficits of States and Commonwealth, which had totalled £9,000,000 in June 1930 and would probably amount to £30,000,000 in June 1931, must increase to £41,000,000 by June 1932 unless drastic reductions were introduced immediately in public expenditure. The proposed fiduciary note issue they condemned unreservedly.

What the economists proposed was a unified plan for the whole country, whose adoption would permit a £28,000,000 reduction in Australia's financial burden, though involving the abandonment of party platforms and the sinking of party differences. The Commonwealth, South Australia and New South Wales would be expected to balance their budgets within five years and the other governments within three. The plan also involved the floating of what was claimed to be the largest public conversion loan ever attempted in modern times, affecting prac-

tically all domestic securities of Commonwealth and States. Premier Scullin and Mr. Theodore, believing that there was no alternative, at last relinquished their opposition to salary and wage reductions and limitation of government pensions and social services. When agreement on the main recommendations of the economists was in sight, Opposition leaders in the Senate and House of Representatives were invited to join the Premiers' Conference, and their support was secured for the new program, including the £556,000,000 conversion scheme.⁴⁹ Mr. Lyons demanded as conditions for his support that New South Wales should undertake to meet its interest payments regularly and that the Commonwealth government should abandon its inflation proposals and abide by the new agreement more faithfully than it had done in the case of the August 1930 agreement.

Main Terms of the Agreement

The main outlines of the plan as described in an official summary were as follows:⁵⁰

"(a) A reduction of 20 per cent in all adjustable Government expenditure, as compared with the year ending June 30, 1930, including all emoluments, wages, salaries, and pensions paid by the governments, whether fixed by statute or otherwise, such reduction to be equitably effected;

"(b) conversion of the internal debts of the Governments on the basis of a 22½ per cent reduction of interest;

"(c) the securing of additional revenue by taxation, both Commonwealth and State;

"(d) a reduction of bank and Savings Bank rates of interest on deposits and advances;

"(e) relief in respect of private mortgages."

The gap of £13,000,000 to £15,000,000 between revenue and expenditure which would still remain would have to be covered for a time by borrowing.

Although ordinary direct taxation had "nearly reached the limit in some States," the Commonwealth would raise an additional £1,500,000 by income tax, and leave, as a last reserve for the States to fall back on, whatever capacity for direct taxation still remained untapped. Sales taxes and primage duties would be increased substantially.

49. Certain Labour representatives at the conference had suggested a 25 per cent increase in taxation of income from unconverted securities as a penalty for non-conversion, but after Mr. Lyons joined the conference this suggestion was dropped.

50. *The Argus* (Melbourne), June 11, 1931.

47. For text cf. *ibid.*, April 18, 1931.

48. Professors Copland, Melville, Shann and Gibling.

An "intolerable load" had been placed on industry and governments by the maintenance hitherto of normal interest rates in spite of the recent fall in prices. Bank rates would now be reduced. With falling costs and ample supplies of credit, industry should recover more easily, particularly since a free exchange rate would be maintained and all measures avoided which might cause a further sudden fall in prices.

The Loan Council specified on June 10 the precise terms on which existing securities were to be exchanged for new holdings under the £556,000,000 conversion loan. Interest rates would be between 3 and 4 per cent, representing a general reduction of 22.5 per cent. It was anticipated that government budgets would benefit at the rate of £5,500,000 per annum if the conversion loan proved successful.⁵¹

To meet the emergency in agriculture and industry, Mr. Theodore was commissioned to negotiate with the banks for advances totalling £8,500,000, of which £2,500,000 would go to wheat farmers and £6,000,000 be applied to unemployment relief, the latter amount to be distributed by the States at their own discretion.

One of the first consequences of the financial agreement of 1931 was that Mr. Theodore was able to put through a bill enabling the government to ship £5,000,000 of the gold reserves of the Commonwealth Bank to London to meet Australian commitments on June 30.⁵² The measure provided that the gold reserve might be as low as 15 per cent in 1933, but that by 1934 it must reach 18 per cent and after June 1935 maintain the normal minimum of 25 per cent.⁵³

THE COMMONWEALTH AND THE 1931 AGREEMENT

In the Federal Labour caucus the new financial agreement created difficulties. A resolution was finally adopted condemning the proposed wage cuts and reductions of pensions and social services; but the same resolution asserted that it was of the utmost

importance to retain a Labour government in office to prevent a "ruthless policy of aggression against the hard-won rights of the workers."⁵⁴ Labour members were thus left virtually free to vote as they pleased. Two members of the Scullin Cabinet resigned on the ground that the financial agreement was a betrayal of the Labour program. But the bills providing for the conversion loan and for budget economies were passed with large majorities, the Opposition and many Labour members voting to uphold the agreement. Although the State Labour groups at first opposed the rehabilitation plan, they ultimately yielded and by July 28 all State Legislatures except that of New South Wales had adopted measures to put it into effect.

The attitude of the banks to the government underwent a transformation after the passage of these measures. They not only renewed nearly £22,000,000 worth of Treasury bills which they had formerly threatened to present for redemption, but reduced the interest rate from 6 to 4 per cent,⁵⁵ thereby permitting the governments to save £434,000. One by one the banks also announced reductions in general bank interest rates.⁵⁶

THE COMMONWEALTH BUDGET—1931-1932

Mr. Theodore's budget speech of July 10, 1931, indicating the extent to which the exchequer would benefit from the drastic economy program adopted at the Premiers' Conference, was naturally received with greatest interest throughout the country.⁵⁷ He announced that in the coming year total expenditure was expected to be no higher than £59,311,000, as compared with an actual expenditure of £66,932,000 in 1930-1931. Inasmuch as Commonwealth expenditure in 1929-1930 had totalled £83,906,000,⁵⁸ the estimates for 1931-1932 thus represented a cut of about 30 per cent from actual expenditure two years earlier.

Mr. Theodore reported that the Commonwealth deficit for the year 1930-1931 was £10,757,000, not including the hitherto unrecovered sum of £3,834,000 paid out on

51. *Ibid.*

52. The bill passed all stages in the House of Representatives on June 17. Cf. p. 273.

53. *The Times* (London), June 18, 1931. The unfunded debt held by non-Australian banks in London was now only £5,000,000. When Sir Otto Niemeyer reported a year earlier it had been £18,000,000.

54. *Ibid.*, June 20, 1931.

55. *Ibid.*, August 3, 1931.

56. *Ibid.*, August 6, 1931.

57. Press release, July 10, 1931, issued by the office of the Commissioner-General for Australia, New York, N. Y.

58. *Quarterly Summary*, March 1931, p. 48.

account of the default of New South Wales. The accumulated Commonwealth deficit was now £17,216,000. The greater part of the 1930-1931 deficit was caused, Mr. Theodore said, by a decline in revenues from indirect taxation, an increase in old age and invalid pensions, and the sudden fall in exchange rates. For 1931-1932 he expected a deficit of only £5,176,000.^{58a} If the Hoover plan for a moratorium was adopted in Europe, he said, this estimated deficit could be still further reduced to £1,148,000 because of the generous British offer to apply the moratorium to interest payments on all war debts owed in London by British Dominions.

Many of the specific economies which made this estimate possible were alluded to by Mr. Theodore. The conversion loan was expected to reduce the Commonwealth gov-

ernment's interest bill by £2,470,000 annually. Wage reductions and other economies under the rehabilitation plan would save £1,800,000; reductions in war pensions and repatriation benefits, £1,300,000; reductions in old-age pensions, £1,825,000; reductions in maternity allowances, £230,000; savings in road grants to the States, £600,000; and other miscellaneous savings, £1,000,000. It was impossible to foresee the precise gains from increases in taxation, but Mr. Theodore believed that reasonable expectations would include additions to the revenue of £1,500,000 from income taxes, £4,000,000 from sales taxes and £4,300,000 from primage duties.⁵⁹

The benefits expected to accrue to State budgets as a result of the 1931 financial rehabilitation plan were announced on June 10. These are indicated in Table X.

TABLE X
State Budgets Before and After the June 1931 Agreement*

	<i>New South Wales</i>	<i>Victoria</i>	<i>South Australia</i>	<i>Queensland</i>	<i>Western Australia</i>	<i>Tasmania</i>
<i>Original Estimate</i>						
(a) Expenditure	£59,560,000	£26,500,000	£13,090,000	£16,240,000	£9,930,000	£2,900,000
(b) Revenue	48,050,000	23,440,000	10,690,000	14,610,000	8,070,000	2,680,000
(c) Deficit	11,510,000	3,060,000	2,400,000	1,630,000	1,860,000	220,000
<i>Proposed Adjustments</i>						
(d) Reduction in (a)	4,600,000	1,750,000	900,000	870,000	660,000	130,000
(e) Additions to (b)	1,500,000
(f) Reduced deficit	5,410,000	1,310,000	1,500,000	760,000	1,200,000	90,000

**The Argus* (Melbourne), July 11, 1931.

Premier Lang's aversion to the wage and pension-cutting features of the agreement of June 1931 was naturally extreme. At the Premiers' Conference, he showed a strong inclination to postpone the New South Wales economy legislation until he had a chance to see whether the conversion scheme would succeed or not. After the Premiers' Conference dispersed, he postponed action for some time, being preoccupied with a conflict with the Legislative Council of New South Wales over an emergency taxation measure the object of which was to raise revenue by a steeply graduated income tax.

The dispute was interrupted, however, by the development of such acute financial stringency in New South Wales that Premier

Lang had to appeal to the Commonwealth for assistance. His request stated that a minimum of £500,000 would be required in July, £2,000,000 in August, and £1,000,000 in September. Premier Scullin submitted the statement to the Loan Council, which offered to accommodate Mr. Lang if he would agree: (a) to assume responsibility for payment of interest on the public debt;^{59a} (b) to resume active membership in the Loan Council; and (c) to give effect to the June agreement.

On July 28 Mr. Scullin announced that Mr. Lang had accepted these terms. Accordingly the Commonwealth government arranged with the Commonwealth Bank on behalf of New South Wales to meet interest payments of £145,000 in New York and £487,000 in London on July 31. The Loan

58a. On September 10 it was announced that Commonwealth expenditure had exceeded revenue by \$5,605,000 in July and August. *New York Times*, September 11, 1931.

59. The sales tax was raised from 2½ to 6 per cent, with certain exceptions, and primage duties from 4 to 10 per cent in most cases.

59a. On September 10 it was announced that New South Wales had paid the interest due in August on its overseas debt. *New York Times*, September 11, 1931.

Council, however, withheld other credits from the New South Wales government until measures introducing a 20 per cent reduction in expenditure were actually passed.

Premier Lang's first economy bill, providing for reduction of all high salaries to a maximum of £500 (less than \$2,500) a year—including those of the Premier, his Ministers, and State judges and railway commissioners—was drastically amended by the Legislative Council. Meanwhile the government was unable to pay civil service salaries totalling £270,000 due on August 6. Under these circumstances Premier Lang yielded to pressure, and introduced an economy bill acceptable to the Legislative Council.⁶⁰ This

provided for graduated salary cuts. The reduction of 8 1/3 per cent introduced by the Bavin administration⁶¹ was to be retained only in the case of salaries up to £200 a year. On those of £1,500 and over the rate of reduction was to be as high as 33 1/3 per cent. The bill was passed on August 7. The Loan Council on the following day issued £500,000 in Treasury bills for the benefit of New South Wales. In the case of all seven governments a strict watch was kept by the Loan Council to see that the spirit and letter of economy legislation were observed. Any deviation from the path marked out by the new acts was to be met by withholding further credits.

CONCLUSION

Mid-August saw the opening of the conversion loan in Australia. By the end of the month it was reported in the press that in response to a wide patriotic appeal 97 per cent of domestic securities had been converted, protests being registered against conversion of only 2 1/2 per cent of the securities.⁶² With the question of bank credits settled, and wide support being accorded the Commonwealth government, the Premiers' Conference was able at last to devote its attention to the pressing problem of unemployment and to measures for encouraging increased efficiency in primary and secondary industries.

There was a disposition among certain adherents of the three leading parties in Australia to regard the outcome of the long political conflict as a moral defeat for Mr. Scullin, since general retrenchment, bitterly opposed by Labourites for months, had finally been adopted. In the United Australia party and the Country party there were many who deplored the fact that Labour leaders had capitulated so tardily. Had the agreement come sooner, Australia's credit would not have suffered so much as it did, they said; neither would such drastic economies have been necessary as was now

the case. There were many Labourites, on the other hand, who still believed that Mr. Scullin ought not to have altered his policy at all. The banks, they said, had a stranglehold on the country and were forcing the workers to carry a disproportionately heavy share of the burden of the depression. They were convinced that the Labour party should have continued the struggle until the banks were forced to abandon their position of dictatorship.⁶³

In all three parties, however, there were influential groups which regarded the Prime Minister's action as he did himself—not as a capitulation, but as the first step in an offensive against rapidly working forces of disintegration. They affirmed that the position of the workers would have been immeasurably worse had this step not been taken. The majority of Australians supported the action of Premier Scullin's government. In Great Britain and the United States a similar view of the case was taken for the most part, and admiration was expressed for the determination with which Australian leaders had set themselves to the task of restoring their country's credit and averting a catastrophe which on several occasions seemed all but inevitable.

60. In introducing the measure Premier Lang stated that it had been drafted "in conformity with the system of Crown Colony government which now obtains in this State." *The Times* (London), August 8, 1931.

61. Cf. footnote 26, p. 267.

62. *New York Times*, September 1, 1931.

63. A conference of the Australian Labour party executive on August 30 insisted that monetary and banking reform, rather than balancing of budgets, should be the immediate aim of the governments. Although deploring the June agreement, the A. L. P. executive instructed members not to obstruct governments in carrying out economies, provided wage reductions were limited to their present scope. Cf. *ibid.*, August 31, 1931.